United States General Accounting Office

GAO

Report to the Congress

May 2000

FINANCIAL AUDIT

Federal Deposit Insurance Corporation's 1999 and 1998 Financial Statements

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Accountability * Integrity * Reliability

GAO/AIMD-00-157

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Abbreviations

BIF	Bank Insurance Fund
FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
REFCORP	Resolution Funding Corporation
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund

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Comptroller General
of the United States

United States General Accounting Office
Washington, D.C. 20548

B-283439

May 26, 2000

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinions on the financial statements of the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund (FRF) for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the three funds. This report also presents (1) our opinion on the effectiveness of FDIC's internal control as of December 31, 1999, and (2) our evaluation of FDIC's compliance with laws and regulations during 1999. In addition, it discusses a reportable weakness in information systems control detected during our 1999 audits, ongoing litigation affecting FRF, and the current status of FRF's liquidation activities.

We conducted our audits pursuant to the provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)), and in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Honorable Donna Tanoue, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the Honorable Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System; the Honorable John Hawke, Jr., Comptroller of the Currency; the Honorable Ellen Seidman, Director of the Office of Thrift Supervision; Senator Phil Gramm, Chairman, and Senator Paul Sarbanes, Ranking Minority Member, of the Senate Committee on Banking, Housing and Urban Affairs; Representative James Leach, Chairman, and Representative John LaFalce, Ranking Minority Member, of the House Committee on Banking and Financial Services; the Honorable Lawrence Summers, Secretary of the Treasury; the Honorable Jacob Lew,

Director of the Office of Management and Budget; and other interested parties.

David M. Walker
Comptroller General
of the United States

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Washington, D.C. 20548

B-283439

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1999 and 1998, for the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), we found

- the financial statements of each fund are presented fairly, in conformity with generally accepted accounting principles;
- although certain internal controls should be improved, FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- no reportable noncompliance with the laws and regulations that we tested.

The following sections discuss our conclusions in more detail. They also present information on (1) the scope of our audits, (2) a reportable condition[1] related to information systems control noted during our 1999 audits, (3) the current status of the goodwill litigation cases, (4) the current status of FRF's liquidation activities, and (5) our evaluation of the Corporation's comments on a draft of this report.

Opinion on Bank Insurance Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Bank Insurance Fund's financial position as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended.

[1]Reportable conditions involve matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control and could adversely affect FDIC's ability to meet the control objectives described in this report.

Opinion on Savings Association Insurance Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Savings Association Insurance Fund's financial position as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended.

Opinion on FSLIC Resolution Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the FSLIC Resolution Fund's financial position as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended.

As discussed in note 8 of FRF's financial statements, a contingency exists from approximately 100 lawsuits pending in the United States Court of Federal Claims concerning the counting of goodwill assets as part of regulatory capital. Based on information currently available, a reasonable estimate cannot be made regarding future losses and settlements related to these cases. Information on the current status of the goodwill cases is presented later in this report.

Opinion on Internal Control

Although certain internal controls should be improved, FDIC management maintained, in all material respects, effective internal control over financial reporting and compliance as of December 31, 1999, that provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the Corporation's financial statements would be prevented or detected on a timely basis. FDIC management asserted that its internal control was effective based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA) of 1982. In making its assertion, FDIC management also fairly stated the need to improve certain internal controls.

Our work identified the need to improve information systems control, as described in a later section of this report. The weakness in information systems control, although not considered material, represents a significant deficiency in the design or operations of internal control that could adversely affect FDIC's ability to meet its internal control objectives as described later in this report. Although the weakness did not materially affect the 1999 financial statements, misstatements may nevertheless occur

in other FDIC-reported financial information as a result of the internal control weakness.

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC's management is responsible for

- preparing the annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles; and (2) management maintained effective internal control, the objectives of which are

- financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and for performing limited procedures with respect to certain other information appearing in FDIC's *1999 Annual Report* and *1999 Chief Financial Officers Act Report.*

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting, including safeguarding assets, and compliance with laws and regulations, including the execution of transactions in accordance with management's authority;
- tested relevant internal controls over financial reporting, including safeguarding assets, and compliance; evaluated the design and operating effectiveness of internal control; and evaluated management's assertion about the effectiveness of internal control;
- considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and
- tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended; the Chief Financial Officers Act of 1990; and the Federal Home Loan Bank Act, as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those which we deemed applicable to the financial statements for the year ended December 31, 1999. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audits from July 1999 through May 2000. We did our work in accordance with generally accepted government auditing standards.

FDIC provided comments on a draft of this report. FDIC's comments are discussed and evaluated in a later section of this report and are reprinted in appendix I.

Reportable Condition

As part of the financial statement audits, we reviewed FDIC's information systems (IS) general controls. The primary objectives of IS general controls are to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations in case of unexpected interruption. IS general controls include corporatewide security program planning and management, access controls, system software, application software development and change controls, segregation of duties, and service continuity controls. The effectiveness of application controls[2] is dependent on the effectiveness of general controls. Both IS general controls and application controls must be effective to help ensure the reliability, appropriate confidentiality, and availability of critical automated information.

In performing our tests, we found FDIC's IS general controls to be ineffective. We identified weaknesses in FDIC's corporatewide security program, access controls, segregation of duties, and service continuity. The weaknesses in IS general controls significantly impair the effectiveness of FDIC's application controls, including financial systems. We considered the effect of the information system control weaknesses and determined that other management controls mitigated their effect on the financial statements. FDIC recognizes the significance of the IS general control issues and has begun planning and initiating corrective actions. Because of their sensitive nature, the details surrounding these weaknesses and vulnerabilities are being communicated to FDIC management, along with our recommendations for corrective action, through separate correspondence.

In addition to these weaknesses, we identified less significant matters involving FDIC's system of internal accounting control that we will be reporting in a separate correspondence to FDIC management.

[2]Application controls consist of the structure, policies, and procedures that apply to separate, individual systems, such as accounts payable and general ledger systems.

Current Status of the Goodwill Litigation Cases

As discussed in note 8 of FRF's financial statements, a contingency exists from the goodwill-related lawsuits against the United States government pending in the United States Court of Federal Claims. These lawsuits assert that certain agreements were breached when Congress enacted, and the Office of Thrift Supervision implemented, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which affected the thrift industry. The legislation changed the computation for regulatory capital requirements, thereby eliminating the special accounting treatment previously allowed for goodwill assets acquired when institutions merged with or acquired failing thrifts. The changes in regulatory treatment of goodwill assets caused some institutions to fall out of capital compliance. In such cases, institutions had to take action to meet capital requirements or they were subject to regulatory action.

On July 1, 1996, the United States Supreme Court concluded that the government is liable for damages in three cases, consolidated for appeal to the Supreme Court, in which the changes in regulatory treatment required by FIRREA led the government to not honor its contractual obligations related to the accounting treatment of goodwill assets. The cases were then referred back to the Court of Federal Claims for trials to determine the amount of damages. On July 23, 1998, the Department of the Treasury determined, based on an opinion of the Department of Justice, that FRF is legally available to satisfy all judgments and settlements in the goodwill litigation involving supervisory action or assistance agreements, in which the former Federal Savings and Loan Insurance Corporation (FSLIC) was a party to those agreements. Treasury further determined that FRF is the appropriate source of funds for payment of any such judgments and settlements.

During 1999, damage awards in three significant goodwill-related cases were decided. On April 9, 1999, the Court of Federal Claims ruled that the federal government must pay Glendale Federal Bank $908.9 million for breaching the contract that allowed the thrift to count goodwill toward regulatory capital. The plaintiffs were seeking up to $2 billion in damages. On April 16, 1999, the Court of Federal Claims awarded $23 million in damages to California Federal Bank, which had been seeking more than $1 billion in damages. On September 30, 1999, the Court of Federal Claims awarded approximately $5 million to LaSalle Talman Bank, which had been seeking more than $1.2 billion in damages. All parties in these cases have appealed. Subsequent to December 31, 1999, the Court of Federal Claims awarded $21.5 million to Landmark Land Company, which had been

seeking approximately $750 million in damages in its supervisory goodwill case against the government. All parties in the Landmark Land case have appealed.

Because of the appeals and differences in awarding damages in the cases thus far, the final outcome in the cases and the amount of any possible damages remain uncertain. With regard to the approximately 100 remaining cases at the trial court level, the outcome of each case and the amount of any possible damages remain uncertain. However, FDIC has concluded that it is probable that FRF will be required to pay additional, possibly substantial, amounts as a result of future judgments and settlements. Because of the uncertainties surrounding the cases, such losses are currently not estimable.

Current Status of FRF's Liquidation Activities

FDIC, as administrator of FRF, is responsible for liquidating the assets and liabilities of the former Resolution Trust Corporation (RTC), [3] as well as the former FSLIC's assets and liabilities. FDIC continues to make significant progress in liquidating FRF's assets. As of December 31, 1999, FRF held total assets valued at $7.0 billion. Of that total, $2.9 billion was held in cash and cash equivalents, with $4.1 billion in assets remaining to be liquidated. These asset levels represent a significant decrease from the prior year, as shown in table 1.

Table 1: FRF's Assets as of December 31, 1999 and 1998

Dollars in billions

	1999	1998	(Decrease)
Cash and cash equivalents	$2.9	$ 4.6	($1.7)
Assets not yet liquidated	4.1	6.1	(2.0)
Total Assets	**$7.0**	**$10.7**	**($3.7)**

The RTC Completion Act required the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by RTC. The RTC Completion Act made

[3] On January 1, 1996, FRF assumed responsibility for all remaining assets and liabilities of the former RTC.

available $18.3 billion of additional funding. Prior to RTC's termination on December 31, 1995, RTC drew down $4.6 billion of the $18.3 billion made available by the RTC Completion Act. During 1999, FDIC returned $4.2 billion to the U.S. Treasury. Subsequent to December 31, 1999, FDIC made approximately $400 million in payments to the U.S. Treasury, so that as of February 3, 2000, the full amount of the appropriation transferred to RTC pursuant to the RTC Completion Act had been repaid.

After providing for all outstanding RTC liabilities, FDIC must transfer the net proceeds from the sale of RTC-related assets to the Resolution Funding Corporation (REFCORP). Any funds transferred to REFCORP are used to pay the interest on REFCORP bonds issued to provide funding for the early RTC resolutions. On April 10, 2000, FDIC transferred $533 million to REFCORP. The payments to REFCORP benefit the U.S. Treasury, which is otherwise obligated to pay the interest on the bonds. The final amount of unused funds available for transfer to REFCORP will not be known with certainty until all of FRF's remaining assets and liabilities are liquidated.

Funds available in FRF-FSLIC will be used to pay future liabilities of FRF-FSLIC, including the contingency related to the goodwill litigation cases. Because additional and possibly substantial amounts could be paid out of FRF-FSLIC for the goodwill cases, FRF has been provided with an indefinite permanent appropriation for the payment of judgments and settlements in the goodwill litigation.

Corporation Comments and Our Evaluation

In commenting on a draft of this report, FDIC acknowledged the IS control weaknesses, and stated a commitment to implementing a strong IS security program for the FDIC and fostering an environment that makes all employees aware of their security responsibilities. We plan to evaluate the effectiveness of FDIC's corrective actions in IS security as part of our audits of FDIC's 2000 financial statements.

FDIC also stated that it will continue to monitor the other matters discussed in our report, including the status of the goodwill litigation cases

and FRF's liquidation activities. We also plan to monitor these issues as a part of our 2000 audits.

David M. Walker
Comptroller General
of the United States

May 5, 2000

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands		1999		1998
Assets				
Cash and cash equivalents	$	164,455	$	2,117,644
Investment in U.S. Treasury obligations, net (Note 3) *(Market value of investments at December 31, 1999 and December 31, 1998 was $27.9 billion and $27.5 billion, respectively)*		28,238,065		26,125,695
Interest receivable on investments and other assets, net		467,070		657,636
Receivables from bank resolutions, net (Note 4)		743,011		747,948
Assets acquired from assisted banks and terminated receiverships, net (Note 5)		20,750		27,373
Property and equipment, net (Note 6)		260,040		209,615
Total Assets	**$**	**29,893,391**	**$**	**29,885,911**
Liabilities				
Accounts payable and other liabilities	$	148,821	$	197,034
Contingent liabilities for: (Note 7)				
Anticipated failure of insured institutions		307,000		32,000
Assistance agreements		10,910		15,125
Litigation losses		10,000		22,301
Asset securitization guarantees		2,477		7,141
Total Liabilities		**479,208**		**273,601**
Commitments and off-balance-sheet exposure (Note 12)				
Fund Balance				
Accumulated net income		29,494,950		29,601,395
Unrealized (loss)/gain on available-for-sale securities, net (Note 3)		(80,767)		10,915
Total Fund Balance		**29,414,183**		**29,612,310**
Total Liabilities and Fund Balance	**$**	**29,893,391**	**$**	**29,885,911**

The accompanying notes are an integral part of these financial statements.

Statements of Income and Fund Balance

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	1999	1998
Revenue		
Interest on U.S. Treasury obligations	$ 1,733,603	$ 1,674,344
Assessments (Note 8)	33,333	21,688
Interest on advances and subrogated claims	20,626	67,350
Gain on conversion of benefit plan (Note 11)	0	200,532
Revenue from assets acquired from assisted banks and terminated receiverships	11,484	20,926
Other revenue	16,556	15,422
Total Revenue	**1,815,602**	**2,000,262**
Expenses and Losses		
Operating expenses	730,394	697,604
Provision for insurance losses (Note 9)	1,168,749	(37,699)
Expenses for assets acquired from assisted banks and terminated receiverships	18,778	29,803
Interest and other insurance expenses	4,126	1,831
Total Expenses and Losses	**1,922,047**	**691,539**
Net (Loss) Income	**(106,445)**	**1,308,723**
Unrealized (loss)/gain on available-for-sale securities, net (Note 3)	(91,682)	11,039
Comprehensive (Loss) Income	**(198,127)**	**1,319,762**
Fund Balance - Beginning	**29,612,310**	**28,292,548**
Fund Balance - Ending	**$ 29,414,183**	**$ 29,612,310**

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	1999	1998
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 1,848,536	$ 1,788,937
Recoveries from bank resolutions	426,348	881,802
Recoveries on conversion of benefit plan	175,720	0
Recoveries from assets acquired from assisted banks and terminated receiverships	46,390	54,207
Assessments	34,692	22,931
Miscellaneous receipts	19,029	27,990
Cash used by:		
Operating expenses	(722,096)	(711,020)
Disbursements for bank resolutions	(1,333,622)	(420,691)
Disbursements for assets acquired from assisted banks and terminated receiverships	(27,756)	(37,391)
Miscellaneous disbursements	(7,542)	(7,959)
Net Cash Provided by Operating Activities (Note 15)	**459,699**	**1,598,806**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	2,120,000	5,850,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	1,060,000	185,456
Cash used by:		
Purchase of property and equipment	(70,886)	(51,058)
Purchase of U.S. Treasury obligations, held-to-maturity	(1,596,859)	(4,478,337)
Purchase of U.S. Treasury obligations, available-for-sale	(3,925,143)	(1,206,430)
Net Cash (Used by) Provided by Investing Activities	**(2,412,888)**	**299,631**
Net (Decrease) Increase in Cash and Cash Equivalents	**(1,953,189)**	**1,898,437**
Cash and Cash Equivalents - Beginning	**2,117,644**	**219,207**
Cash and Cash Equivalents - Ending	**$ 164,455**	**$ 2,117,644**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Notes to the Financial Statements
Bank Insurance Fund
December 31, 1999 and 1998

1. Legislative History and Operations of the Bank Insurance Fund

Legislative History
The U.S. Congress created the Federal Deposit Insurance Corporation (FDIC) through enactment of the Banking Act of 1933. The FDIC was created to restore and maintain public confidence in the nation's banking system.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. The FIRREA created the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF). It also designated the FDIC as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The BIF and the SAIF are insurance funds responsible for protecting insured bank and thrift depositors from loss due to institution failures. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to FIRREA, an active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of BIF-member institutions are generally insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision.

In addition to traditional banks and thrifts, several other categories of institutions exist. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation
The Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's assessment authority (see Note 8) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain the insurance funds at 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

The Deposit Insurance Funds Act of 1996 (DIFA) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on BIF-assessable deposits that is one-fifth of the rate for SAIF-assessable deposits through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 4) the payment of the annual FICO interest obligation of approximately $790 million on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of BIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the BIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 7) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk; and 8) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date. As of December 31, 1999, Congress did not enact legislation to either merge the BIF and the SAIF or to eliminate the thrift charter.

The Gramm-Leach-Bliley Act (GLBA), (Public Law 106-102), was enacted on November 12, 1999, in order to modernize the financial service industry that includes banks, brokerages, insurers, and other financial services providers. The GLBA will, among other changes, lift restrictions on affiliations among banks, securities firms, and insurance companies. It will also expand the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries. The GLBA provides for a greater degree of functional regulation of securities and insurance activities conducted by banks and their affiliates. The GLBA also governs affiliations of thrifts that are in financial holding companies and provides for functional regulation of such thrifts' affiliates.

Recent Legislative Initiatives

Congress continues to focus on legislative proposals that would affect the deposit insurance funds. Some of these proposals, such as the merger of the BIF and the SAIF and the rebate of the insurance funds, may have a significant impact on the BIF and the SAIF, if enacted into law. However, these proposals continue to vary and FDIC management cannot predict which provisions, if any, will ultimately be enacted.

Operations of the BIF

The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured institutions and 2) resolve failed institutions, including managing and liquidating their assets. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System. Further, the FDIC can also provide assistance to failing banks and monitor compliance with assistance agreements.

The BIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations and 2) BIF assessment premiums. Additional funding sources are U.S. Treasury and Federal Financing Bank (FFB) borrowings, if necessary. The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the BIF, known as the maximum obligation limitation (MOL). At December 31, 1999, the MOL for the BIF was $51.8 billion.

Receivership Operations
The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from BIF assets and liabilities to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses paid by the BIF on behalf of the receiverships are recovered from those receiverships.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations, and cash flows of the BIF and are presented in accordance with generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed banks for which the FDIC acts as receiver or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

Use of Estimates
FDIC management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash Equivalents
Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents primarily consist of Special U.S. Treasury Certificates.

Investments in U.S. Treasury Obligations
Investments in U.S. Treasury obligations are recorded pursuant to the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity. Securities designated as available-for-sale are shown at fair value with unrealized gains and losses included in Comprehensive Income. Realized gains and losses are included in the Statements of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method. The BIF does not designate any securities as trading.

Allowance for Losses on Receivables From Bank Resolutions and Assets Acquired from Assisted Banks and Terminated Receiverships
The BIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed banks. The BIF also records as an asset the amounts paid for assets acquired from assisted banks and terminated receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed banks, net of all applicable estimated liquidation costs.

Cost Allocations Among Funds
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the BIF, the SAIF, and the FRF. Each fund pays its liabilities for these benefits directly to the entity. The BIF's unfunded net postretirement benefits liability is presented in the BIF's Statements of Financial Position.

Disclosure About Recent Accounting Standard Pronouncements
In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the BIF's disclosures for postretirement benefits have been made, the impact is not material.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This Statement requires the development or purchase cost of internal-use software to be treated as a capital asset. The FDIC adopted this Statement effective January 1, 1998. This asset is presented in the "Property and equipment, net" line item in the BIF's Statements of Financial Position (see Note 6).

Other recent pronouncements are not applicable to the financial statements.

Depreciation
The FDIC has designated the BIF as administrator of property and equipment used in its operations. Consequently, the BIF includes the cost of these assets in its financial statements and provides the necessary funding for them. The BIF charges the other funds usage fees representing an allocated share of its annual depreciation expense. These usage fees are recorded as cost recoveries, which reduce operating expenses.

Prior to January 1, 1998, only buildings owned by the Corporation were capitalized and depreciated. On January 1, 1998, FDIC began capitalizing the development and purchase cost of internal-use software in accordance with the requirements of SOP 98-1. The FDIC also began to capitalize the cost of furniture, fixtures, and general equipment. These costs were expensed in prior years on the basis that the costs were immaterial. The expanded capitalization policy had no material impact on the financial position or operations of the BIF.

The Washington, D.C. office buildings and the L. William Seidman Center in Arlington, Virginia, are depreciated on a straight-line basis over a 50-year estimated life. The San Francisco condominium offices are depreciated on a straight-line basis over a 35-year estimated life. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

Related Parties

The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications

Reclassifications have been made in the 1998 financial statements to conform to the presentation used in 1999.

3. Investment in U.S. Treasury Obligations, Net

Cash received by the BIF is invested in U.S. Treasury obligations with maturities exceeding three months unless cash is needed to meet the liquidity needs of the fund. The BIF's current portfolio includes securities classified as held-to-maturity and available-for-sale. The BIF also invests in Special U.S. Treasury Certificates that are included in the "Cash and cash equivalents" line item.

In 1999, the FDIC purchased $1.9 billion (adjusted par value) of Treasury inflation-indexed securities (TIIS) for the BIF. Unlike a traditional Treasury security, the par value of a TIIS is indexed to and increases with the Consumer Price Index (CPI). Hence, these securities provide a measure of protection for the BIF in the event of unanticipated inflation.

There were no available-for-sale securities sold during 1999. One available-for-sale security was sold during 1998, which resulted in a realized gain of $224 thousand. Proceeds from this sale were $186 million. This gain was included in the "Other revenue" line item. The cost of the security sold was determined on a specific identification basis.

U.S. Treasury Obligations at December 31, 1999

Dollars in Thousands

Maturity	Stated Yield at Purchase (a)		Face Value		Amortized Cost		Unrealized Holding Gains		Unrealized Holding Losses		Market Value
					Held-to-Maturity						
Less than one year	6.02%	$	2,560,000	$	2,561,679	$	3,087	$	(2,468)	$	2,562,298
1-3 years	6.06%		6,540,000		6,669,580		7,233		(32,331)		6,644,482
3-5 years	6.45%		4,805,000		5,052,441		18,300		(17,217)		5,053,524
5-10 years	5.88%		9,439,053		9,665,955		58,403		(374,526)		9,349,832
Total		$	23,344,053	$	23,949,655	$	87,023	$	(426,542)	$	23,610,136
					Available-for-Sale						
Less than one year	5.62%	$	430,000	$	431,206	$	48	$	(94)	$	431,160
1-3 years	5.36%		625,000		631,662		0		(7,001)		624,661
3-5 years	6.00%		445,000		454,254		0		(6,391)		447,863
5-10 years	5.15%		2,977,452		2,852,055		0		(67,329)		2,784,726
Total		$	4,477,452	$	4,369,177	$	48	$	(80,815)	$	4,288,410
					Total Investment in U.S. Treasury Obligations, Net						
Total		**$**	**27,821,505**	**$**	**28,318,832**	**$**	**87,071**	**$**	**(507,357)**	**$**	**27,898,546**

(a) For TIIS, the yields in the above table include their stated real yields at purchase, not their effective yields. Effective yields on TIIS would include the stated real yield at purchse plus an inflation adjustment of 2.6%, which was the latest year-over-year increase in the CPI as reported by the Bureau of Labor Statistics on December 14,1999. These effective yields are 6.44% and 6.70% for TIIS classified as held-to-maturity and available-for-sale, respectively.

U.S. Treasury Obligations at December 31, 1998

Dollars in Thousands

Maturity	Stated Yield at Purchase		Face Value		Amortized Cost		Unrealized Holding Gains		Unrealized Holding Losses		Market Value
					Held-to-Maturity						
Less than one year	5.57%	$	2,120,000	$	2,133,448	$	10,597	$	0	$	2,144,045
1-3 years	6.04%		5,525,000		5,564,524		148,112		0		5,712,636
3-5 years	6.19%		5,965,000		6,345,044		322,126		0		6,667,170
5-10 years	6.01%		10,295,000		10,566,047		864,116		0		11,430,163
Total		$	23,905,000	$	24,609,063	$	1,344,951	$	0	$	25,954,014
					Available-for-Sale						
Less than one year	5.09%	$	940,000	$	946,726	$	4,947	$	0	$	951,673
1-3 years	5.63%		550,000		558,991		5,968		0		564,959
Total		$	1,490,000	$	1,505,717	$	10,915	$	0	$	1,516,632
					Total Investment in U.S. Treasury Obligations, Net						
Total		**$**	**25,395,000**	**$**	**26,114,780**	**$**	**1,355,866**	**$**	**0**	**$**	**27,470,646**

As of December 31, 1999 and 1998, the book value of Investment in U.S. Treasury obligations net, is $28.2 billion and $26.1 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities.

As of December 31, 1999, the unamortized premium, net of the unamortized discount, was $497 million. As of December 31, 1998, the unamortized premium, net of the unamortized discount, was $720 million.

4. Receivables from Bank Resolutions, Net

The bank resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the BIF against the receiverships' assets. There were seven bank failures in 1999 and three in 1998, with assets at failure of $1.4 billion and $370 million, respectively, and BIF outlays of $1.2 billion and $286.1 million, respectively.

As of December 31, 1999 and 1998, the FDIC, in its receivership capacity for BIF-insured institutions, held assets with a book value of $1.9 billion and $1.6 billion, respectively (including cash and miscellaneous receivables of $524 million and $480 million at December 31, 1999 and 1998, respectively). These assets represent a significant source of repayment of the BIF's receivables from bank resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could cause the BIF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables from Bank Resolutions, Net at December 31

Dollars in Thousands

	1999	1998
Assets from open bank assistance	$ 105,655	$ 112,045
Allowance for losses	(4,196)	(10,727)
Net Assets From Open Bank Assistance	**101,459**	**101,318**
Receivables from closed banks	15,673,843	18,656,746
Allowance for losses	(15,032,291)	(18,010,116)
Net Receivables From Closed Banks	**641,552**	**646,630**
Total	**$ 743,011**	**$ 747,948**

5. Assets Acquired from Assisted Banks and Terminated Receiverships, Net

The BIF has acquired assets from certain troubled and failed banks by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The methodology to estimate cash recoveries from these assets, which is used to derive the related allowance for losses, is similar to that for receivables from

bank resolutions (see Note 4). The estimated cash recoveries are based upon a statistical sampling of the assets but only include expenses for the disposition of the assets.

The BIF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of interest earned on assets in liquidation and gain on the sale of owned real estate. Expenses are recognized for the management and liquidation of these assets.

Assets Acquired from Assisted Banks and Terminated Receiverships, Net at December 31

Dollars in Thousands

	1999	1998
Assets acquired from assisted banks and terminated receiverships	$ 105,136	$ 169,712
Allowance for losses	(84,386)	(142,339)
Total	**$ 20,750**	**$ 27,373**

6. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	1999	1998
Land	$ 29,631	$ 29,631
Buildings	159,188	152,078
PC/LAN/WAN equipment	27,748	15,612
Application software	29,671	1,892
Mainframe equipment	5,569	354
Furniture, fixtures, and general equipment	10,596	764
Telephone equipment	1,771	460
Work in Progress - Application software	48,961	49,630
Accumulated depreciation	(53,095)	(40,806)
Total	**$ 260,040**	**$ 209,615**

The depreciation expense was $12.3 million and $3.7 million for 1999 and 1998, respectively.

7. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records a contingent liability and a loss provision for banks (including Oakar and Sasser financial institutions) that are likely to fail, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liabilities for anticipated failure of insured institutions as of December 31, 1999 and 1998, were $307 million and $32 million, respectively. The contingent liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable bank failures. Therefore, these estimates are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 4).

Several recent bank failures have involved some degree of fraud, which adds uncertainty to estimates of loss and recovery rates. These uncertainties, along with potential changes in economic conditions, could affect the ultimate cost to the BIF from probable failures.

In addition to these recorded contingent liabilities, the FDIC has recently identified a small number of additional BIF-insured financial institutions that are likely to fail in the near future unless institution management can resolve existing problems. If these institutions fail, they may collectively cause a material loss to the BIF, but the amount of potential loss is not estimable at this time.

There are other banks where the risk of failure is less certain, but still considered reasonably possible. Should these banks fail, the BIF could incur additional estimated losses ranging from $1 million to $205 million.

The accuracy of these estimates will largely depend on future economic conditions. The FDIC's Board of Directors (Board) has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

Year 2000 Anticipated Failures
The BIF is also subject to a potential loss from banks that may fail if they are unable to become Year 2000 compliant in a timely manner. In May 1997, the federal financial institution regulatory agencies developed a program to conduct uniform reviews of all FDIC-insured institutions' Year 2000 readiness. The program assessed the five key phases of an institution's Year 2000 conversion efforts: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation. The reviews classified each institution as Satisfactory, Needs Improvement, or Unsatisfactory. Performance was defined as Satisfactory when Year 2000 weaknesses were minor in nature and could be readily corrected within the program management framework.

In order to assess exposure to the BIF from Year 2000 potential failures, the FDIC evaluated all information relevant to such an assessment, to include multiple Year 2000 on-site examination results, institution capital levels and supervisory examination composite ratings, and other institution past and current financial characteristics. Based on data updated through December 31, 1999, all BIF-insured institutions have received a Satisfactory rating. As a result of this assessment, we conclude that, as of December 31, 1999, there are no probable or reasonably possible losses to the BIF from Year 2000 failures.

Assistance Agreements
The contingent liabilities for assistance agreements resulted from several large transactions where problem assets were purchased by an acquiring institution under an agreement that calls for the FDIC to absorb credit losses and pay related costs for funding and asset administration, plus an incentive fee.

Litigation Losses
The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $83 million are reasonably possible.

Asset Securitization Guarantees
As part of the FDIC's efforts to maximize the return from the sale or disposition of assets from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the BIF provided limited guarantees to cover certain losses on the securitized

assets up to a specified maximum. In exchange for backing the limited guarantees, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantees. At December 31, 1999 and 1998, the BIF had a contingent liability under the guarantees of $2.5 million and $7.1 million, respectively. The maximum off-balance-sheet exposure under the limited guarantees is presented in Note 12.

8. Assessments

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to 1.25 percent of insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings. Since May 1995, the BIF has maintained a capitalization level at or higher than the DRR of 1.25 percent of insured deposits. As of December 31, 1999, the capitalization level for BIF is 1.36 percent of estimated insured deposits.

The DIFA (see Note 1) provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions (including banks, thrifts, and Oakar and Sasser financial institutions). It also made the FICO assessment separate from regular assessments, effective on January 1, 1997.

BIF-insured banks began paying a FICO assessment on January 1, 1997. The FICO assessment rate on BIF-assessable deposits is one-fifth the rate for SAIF-assessable deposits. The annual FICO interest obligation of approximately $790 million will be paid on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist.

The FICO assessment has no financial impact on the BIF. The FICO assessment is separate from the regular assessments and is imposed on banks and thrifts, not on the insurance funds. The FDIC, as administrator of the BIF and the SAIF, is acting solely as a collection agent for the FICO. During 1999 and 1998, $364 million and $341 million, respectively, was collected from banks and remitted to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 0.11 cents and 0.8 cents per $100 of assessable deposits for 1999 and 1998, respectively. On November 8, 1999, the Board voted to retain the BIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2000. The Board reviews premium rates semiannually.

9. Provision for Insurance Losses

Provision for insurance losses was $1.2 billion and a negative $38 million for 1999 and 1998, respectively. The large provision in 1999 was largely attributed to recognizing losses of $838 million for the resolution of current year bank failures. In 1998, the negative provision resulted primarily from decreased losses expected for assets in liquidation. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	1999	1998
Valuation Adjustments:		
Open bank assistance	$ (6,280)	$ (2,431)
Closed banks	325,836	(53,926)
Assets acquired from assisted banks and terminated receiverships	(10,977)	2,222
Total Valuation Adjustments	**308,579**	**(54,135)**
Contingent Liabilities:		
Anticipated failure of insured institutions	849,000	29,000
Assistance agreements	8,792	(8,322)
Litigation losses	2,294	8,801
Asset securitization guarantees	84	(13,043)
Total Contingent Liabilities	**860,170**	**16,436**
Total	**$ 1,168,749**	**$ (37,699)**

10. Pension Benefits, Savings Plans, and Accrued Annual Leave

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits, and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on BIF's operating expenses for 1998.

Although the BIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The BIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $38.2 million and $38.4 million at December 31, 1999 and 1998, respectively.

Pension Benefits and Savings Plans Expenses for the Years Ended December 31

Dollars in Thousands

	1999	1998
CSRS/FERS Disability Fund	$ 0	$ 1,166
Civil Service Retirement System	10,270	10,477
Federal Employees Retirement System (Basic Benefit)	28,449	27,857
FDIC Savings Plan	17,215	17,534
Federal Thrift Savings Plan	11,018	10,991
Total	**$ 66,952**	**$ 68,025**

11. Postretirement Benefits Other Than Pensions

On January 2, 1998, the BIF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 FDIC employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the BIF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 FDIC retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999. The OPM assumed the BIF's obligation for postretirement health benefits for retirees and near retirees for a fee of $150 million. The OPM is now responsible for postretirement health benefits for all FDIC employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constituted both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of $201 million to the BIF in 1998.

Postretirement Benefits Other Than Pensions		
Dollars in Thousands		
	1999	1998
Funded Status at December 31		
Fair value of plan assets (a)	$ 71,286	$ 67,539
Less: Benefit obligation	75,275	67,539
Under Funded Status of the Plans	**$ 3,989**	**$ 0**
Accrued benefit liability recognized in the Statements of Financial Position	$ 3,989	$ 0
Expenses and Cash Flows for the Period Ended December 31		
Net periodic benefit cost	$ 2,468	$ (1,942)
Employer contributions	1,111	6,299
Benefits paid	1,111	6,299
Weighted-Average Assumptions at December 31		
Discount rate	4.50%	4.50%
Expected return on plan assets	4.50%	4.50%
Rate of compensation increase	3.00%	4.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to be subject to an annual cap of $2,000.

12. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases

The BIF's allocated share of the FDIC's lease commitments totals $150.9 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the BIF, the SAIF, and the FRF. Changes in the relative workloads could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of $41.5 million and $47.7 million for the years ended December 31, 1999 and 1998, respectively.

Lease Commitments

Dollars in Thousands

2000	2001	2002	2003	2004	2005
$39,487	$34,718	$33,322	$23,043	$13,261	$7,085

Off-Balance-Sheet Exposure

Asset Securitization Guarantees
As discussed in Note 7, the BIF provided certain limited guarantees to facilitate securitization transactions. The table below gives the maximum off-balance-sheet exposure the BIF has under these guarantees.

Asset Securitization Guarantees at December 31				
Dollars in Thousands				
		1999		1998
Maximum exposure under the limited guarantees	$	448,881	$	481,313
Less: Guarantee claims paid (inception-to-date)		(32,716)		(27,253)
Less: Amount of exposure recognized as a contingent liability (see Note 7)		(2,477)		(7,141)
Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees	$	**413,688**	$	**446,919**

Deposit Insurance
As of December 31, 1999, deposits insured by the BIF totaled approximately $2.2 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

Asset Putbacks
Upon resolution of a failed bank, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain assets may be resold, or "putback," to the receivership. The values and time limits for these assets to be putback are defined within each agreement. It is possible that the BIF could be called upon to fund the purchase of any or all of the "unexpired putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under existing agreements is $4.5 million. The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the acquirer initiates the asset putback procedures. The FDIC projects that a total of $132 thousand in book value of assets will be putback.

13. Concentration of Credit Risk

As of December 31, 1999, the BIF had $15.8 billion in gross receivables from bank resolutions and $105.1 million in gross assets acquired from assisted banks and terminated receiverships. An allowance for loss of $15.0 billion and $84.4 million, respectively, has been recorded against these assets. The liquidating entities' ability to make repayments to the BIF is largely influenced by the economy of the area in which they are located. The BIF's estimated maximum exposure to possible accounting loss for these assets is shown in the table below.

Concentration of Credit Risk at December 31, 1999

Dollars in Millions

	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from bank resolutions, net	$160	$106	$391	$5	$0	$81	$743
Assets acquired from assisted banks and terminated receiverships, net	0	20	0	0	0	1	21
Total	**$160**	**$126**	**$391**	**$5**	**$0**	**$82**	**$764**

14. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

The net receivables from bank resolutions primarily include the BIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the BIF's allowance for loss against the net receivables from bank resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 4), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the BIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from bank resolutions.

The majority of the net assets acquired from assisted banks and terminated receiverships (except real estate) is comprised of various types of financial instruments, including investments, loans and accounts receivables. Like receivership assets, assets acquired from assisted banks and terminated receiverships are valued using discount rates that include consideration of market risk. However, assets acquired from assisted banks and terminated receiverships do not involve the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

15. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

		1999		1998
Net Income	**$**	**(106,445)**	**$**	**1,308,723**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities				
Income Statement Items:				
Provision for insurance losses		1,168,749		(37,699)
Amortization of U.S. Treasury obligations		164,880		133,705
TIIS inflation adjustment		(26,930)		0
Gain on sale of investments		0		(224)
Gain on conversion of benefit plan		0		(200,532)
Depreciation on property and equipment		12,288		3,745
Retirement of capitalized equipment		4,476		0
Change in Assets and Liabilities:				
Decrease (Increase) in interest receivable on investments and other assets		188,322		(7,033)
(Increase) Decrease in receivables from bank resolutions		(311,671)		417,444
Decrease in assets acquired from assisted banks and terminated receiverships		17,599		31,129
(Decrease) in accounts payable and other liabilities		(45,219)		(26,416)
(Decrease) in contingent liabilities for anticipated failure of insured institutions		(574,000)		(8,000)
(Decrease) in contingent liabilities for assistance agreements		(13,007)		(8,505)
(Decrease) in contingent liabilities for litigation losses		(14,595)		0
(Decrease) in contingent liabilities for asset securitization guarantees		(4,748)		(7,531)
Net Cash Provided by Operating Activities	**$**	**459,699**	**$**	**1,598,806**

16. Year 2000 Issues

State of Readiness

The FDIC, as administrator for the BIF, conducted a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant. This meant that systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. An oversight committee comprised of FDIC division management directed the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) led the Year 2000 effort, under the direction of the oversight committee. The internal Year 2000 team used a structured approach and rigorous program management as described in the U.S. General Accounting Office's (GAO) *Year 2000 Computing Crisis: An Assessment Guide.* This methodology consisted of five phases under the overall umbrellas of Program and Project Management. The FDIC completed all of the recommended GAO phases: Awareness, Assessment, Renovation, Validation, and Implementation.

As a precautionary measure, the FDIC developed a Year 2000 Rollover Weekend Strategy to monitor the information systems during the transition into the year 2000. Contingency plans were in place for mission-critical application failures and for other systems. No major problems were anticipated due to the extensive planning and validation that occurred (see Note 17).

Year 2000 Estimated Costs
Year 2000 compliance expenses for the BIF are estimated at $45.4 million and $34.7 million at December 31, 1999 and 1998, respectively. These expenses are reflected in the "Operating expenses" line of the BIF's Statements of Income and Fund Balance.

17. Subsequent Events

Year 2000 Effect on Internal Systems
On January 1, 2000, all FDIC systems were operating normally as a result of a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant prior to December 31, 1999. No internal system failures have occurred and none are anticipated (see Note 16).

Year 2000 Effect on Anticipated Failures
As of May 5, 2000, no banks had failed due to Year 2000 related problems and none are anticipated. Refer to "Contingent Liabilities for: Year 2000 Anticipated Failures" (see Note 7).

Savings Association Insurance Fund's Financial Statements

Statements of Financial Position

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands		1999		1998
Assets				
Cash and cash equivalents	$	146,186	$	666,736
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $23.3 million and $55.2 million at December 31, 1999 and December 31, 1998, respectively)*		268,490		253,790
Investment in U.S. Treasury obligations, net (Note 4) *(Market value of investments at December 31, 1999 and December 31, 1998 was $9.8 billion and $9.4 billion, respectively)*		9,979,572		9,061,786
Interest receivable on investments and other assets, net		153,558		140,699
Receivables from thrift resolutions, net (Note 5)		62,244		8,857
Total Assets	**$**	**10,610,050**	**$**	**10,131,868**
Liabilities				
Accounts payable and other liabilities	$	4,888	$	7,247
Contingent liability for anticipated failure of insured institutions (Note 6)		56,000		31,000
SAIF-member exit fees and investment proceeds held in escrow (Note 3)		268,490		253,790
Total Liabilities		**329,378**		**292,037**
Commitments and off-balance-sheet exposure (Note 10)				
Fund Balance				
Accumulated net income		10,312,416		9,835,577
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)		(31,744)		4,254
Total Fund Balance		**10,280,672**		**9,839,831**
Total Liabilities and Fund Balance	**$**	**10,610,050**	**$**	**10,131,868**

The accompanying notes are an integral part of these financial statements.

Statements of Income and Fund Balance

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	1999	1998
Revenue		
Interest on U.S. Treasury obligations	$ 585,830	$ 562,750
Assessments (Note 7)	15,116	15,352
Gain on conversion of benefit plan (Note 9)	0	5,464
Other revenue	49	293
Total Revenue	**600,995**	**583,859**
Expenses and Losses		
Operating expenses	92,882	84,628
Provision for insurance losses	30,648	31,992
Other insurance expenses	626	9
Total Expenses and Losses	**124,156**	**116,629**
Net Income	476,839	467,230
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)	(35,998)	4,286
Comprehensive Income	440,841	471,516
Fund Balance - Beginning	9,839,831	9,368,315
Fund Balance - Ending	$ 10,280,672	$ 9,839,831

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

		1999		1998
Cash Flows From Operating Activities				
Cash provided by:				
Interest on U.S. Treasury obligations	$	606,244	$	597,596
Assessments		15,384		13,991
Entrance and exit fees, including interest on exit fees (Note 3)		15,487		10,306
Recoveries from thrift resolutions		5,775		1,119
Recoveries from conversion of benefit plan		2,264		0
Miscellaneous receipts		46		67
Cash used by:				
Operating expenses		(91,789)		(85,248)
Disbursements for thrift resolutions		(64,494)		(5,414)
Miscellaneous disbursements		(306)		0
Net Cash Provided by Operating Activities (Note 12)		**488,611**		**532,417**
Cash Flows From Investing Activities				
Cash provided by:				
Maturity of U.S. Treasury obligations, held-to-maturity		1,635,000		1,840,000
Maturity of U.S. Treasury obligations, available-for-sale		425,000		0
Cash used by:				
Purchase of U.S. Treasury obligations, held-to-maturity		(1,326,004)		(1,402,352)
Purchase of U.S. Treasury obligations, available-for-sale		(1,775,103)		(438,225)
Net Cash Used by Investing Activities		**(1,041,107)**		**(577)**
Net (Decrease) Increase in Cash and Cash Equivalents		**(552,496)**		**531,840**
Cash and Cash Equivalents - Beginning		**721,984**		**190,144**
Unrestricted Cash and Cash Equivalents - Ending		**146,186**		**666,736**
Restricted Cash and Cash Equivalents - Ending		**23,302**		**55,248**
Cash and Cash Equivalents - Ending	**$**	**169,488**	**$**	**721,984**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Notes to the Financial Statements
Savings Association Insurance Fund
December 31, 1999 and 1998

1. Legislative History and Operations of the Savings Association Insurance Fund

Legislative History
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. The FIRREA created the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The SAIF and the BIF are insurance funds responsible for protecting insured thrift and bank depositors from loss due to institution failures. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to the Resolution Trust Corporation Completion Act of 1993 (RTC Completion Act), resolution responsibility transferred from the RTC to the SAIF on July 1, 1995. Prior to that date, thrift resolutions were the responsibility of the RTC (January 1, 1989 through June 30, 1995) or the FSLIC (prior to 1989).

Pursuant to FIRREA, an active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). Deposits of BIF-member institutions are generally insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board.

In addition to traditional thrifts and banks, several other categories of institutions exist. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation
The Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's

assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain the insurance funds at 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

The Deposit Insurance Funds Act of 1996 (DIFA) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured thrifts and banks; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on SAIF-assessable deposits that is five times the rate for BIF-assessable deposits through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 4) the payment of the annual FICO interest obligation of approximately $790 million on a pro rata basis between thrifts and banks on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of SAIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the SAIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 7) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk; and 8) the merger of the SAIF and the BIF on January 1, 1999, if no insured depository institution is a savings association on that date. As of December 31, 1999, Congress did not enact legislation to either merge the SAIF and the BIF or to eliminate the thrift charter.

The DIFA required the establishment of a Special Reserve of the SAIF if, on January 1, 1999, the reserve ratio exceeded the DRR of 1.25 percent. The reserve ratio exceeded the DRR by approximately 0.14 percent on January 1, 1999. As a result, $978 million was placed in a Special Reserve of the SAIF and was administered by the FDIC. On November 12, 1999, the Gramm-Leach-Bliley Act (GLBA), (Public Law 106-102), was enacted which eliminated the SAIF Special Reserve.

The GLBA was enacted in order to modernize the financial services industry that includes banks, brokerages, insurers, and other financial service providers. The GLBA will, among other changes, lift restrictions on affiliations among banks, securities firms, and insurance companies. It will also expand the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries. The GLBA provides for a greater degree of functional regulation of securities and insurance activities conducted by banks and their affiliates. The GLBA also governs affiliations of thrifts that are in financial holding companies and provides for functional regulation of such thrifts' affiliates.

Recent Legislative Initiatives

Congress continues to focus on legislative proposals that would affect the deposit insurance funds. Some of these proposals, such as the merger of the SAIF and the BIF and the rebate of the insurance funds, may have a significant impact on the SAIF and the BIF, if enacted into law. However, these proposals continue to vary and FDIC management cannot predict which provisions, if any, will ultimately be enacted.

Operations of the SAIF

The primary purpose of the SAIF is to: 1) insure the deposits and protect the depositors of SAIF-insured institutions and 2) resolve failed SAIF-insured institutions including managing and

liquidating their assets. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and by BIF-member banks designated as Oakar financial institutions.

The SAIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations and 2) SAIF assessment premiums. Additional funding sources are borrowings from the U.S. Treasury, the Federal Financing Bank (FFB), and the Federal Home Loan Banks, if necessary. The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the SAIF and the BIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the SAIF and the BIF, from $5 billion to $30 billion. The FDICIA also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). At December 31, 1999, the MOL for the SAIF was $16.7 billion.

Receivership Operations
The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from SAIF assets and liabilities to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses paid by the SAIF on behalf of the receiverships are recovered from those receiverships.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations, and cash flows of the SAIF and are presented in accordance with generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the FDIC acts as receiver or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

Use of Estimates
FDIC management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash Equivalents
Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents primarily consist of Special U.S. Treasury Certificates.

Investments in U.S. Treasury Obligations
Investments in U.S. Treasury obligations are recorded pursuant to the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-

to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity. Securities designated as available-for-sale are shown at fair value with unrealized gains and losses included in Comprehensive Income. Realized gains and losses are included in the Statements of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method. The SAIF does not designate any securities as trading.

Allowance for Losses on Receivables from Thrift Resolutions
The SAIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrifts, net of all estimated liquidation costs.

Cost Allocations Among Funds
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the SAIF, the BIF, and the FRF. Each fund pays its liabilities for these benefits directly to the entity. The SAIF's unfunded net postretirement benefits liability is presented in the SAIF's Statements of Financial Position.

Disclosure About Recent Accounting Standards Pronouncements
In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the SAIF's disclosures for postretirement benefits have been made, the impact is not material.

Other recent pronouncements are not applicable to the financial statements.

Related Parties
The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1998 financial statements to conform to the presentation used in 1999.

3. Cash and Other Assets: Restricted for SAIF-Member Exit Fees

The SAIF collects entrance and exit fees for conversion transactions when an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to

the BIF (resulting in an exit fee). Regulations approved by the FDIC's Board of Directors (Board) and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow.

The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. There were no conversion transactions during 1999 and 1998 that resulted in an exit fee to the SAIF.

Cash and Other Assets: Restricted for SAIF-Member Exit Fees at December 31

Dollars in Thousands

	1999	1998
Cash and cash equivalents	$ 23,302	$ 55,248
Investment in U.S. Treasury obligations, net	239,975	193,350
Interest receivable on U.S. Treasury obligations	4,529	4,190
Exit fees receivable	684	1,002
Total	**$ 268,490**	**$ 253,790**

U.S. Treasury Obligations, Net at December 31, 1999 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Maturity	Stated Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
1-3 years	5.90%	$ 115,000	$ 115,336	$ 0	$ (876)	$ 114,460
3-5 years	6.30%	55,000	56,131	217	(582)	55,766
5-10 years	5.20%	64,000	68,508	0	(5,265)	63,243
Total		$ 234,000	$ 239,975	$ 217	$ (6,723)	$ 233,469

U.S. Treasury Obligations, Net at December 31, 1998 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Maturity	Stated Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Held-to-Maturity			
1-3 years	5.52%	$ 15,000	$ 15,359	$ 335	$ 0	$ 15,694
3-5 years	6.12%	135,000	134,722	6,550	0	141,272
5-10 years	5.69%	40,000	43,269	2,156	0	45,425
Total		**$ 190,000**	**$ 193,350**	**$ 9,041**	**$ 0**	**$ 202,391**

As of December 31, 1999, the unamortized premium, net of unamortized discount, was $6.0 million. As of December 31, 1998, the unamortized premium, net of the unamortized discount, was $3.4 million.

4. Investment in U.S. Treasury Obligations, Net

Cash received by the SAIF is invested in U.S. Treasury obligations with maturities exceeding three months unless cash is needed to meet the liquidity needs of the fund. The SAIF's current portfolio includes securities classified as held-to-maturity and available-for-sale. The SAIF also invests in Special U.S. Treasury Certificates that are included in the "Cash and cash equivalents" line item.

In 1999, the FDIC purchased $935.7 million (adjusted par value) of Treasury inflation-indexed securities (TIIS) for the SAIF. Unlike a traditional Treasury security, the par value of a TIIS is indexed to and increases with the Consumer Price Index (CPI). Hence, these securities provide a measure of protection for the SAIF in the event of unanticipated inflation.

U.S. Treasury Obligations, Net at December 31, 1999 (Unrestricted)

Dollars in Thousands

Maturity	Stated Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Held-to-Maturity			
Less than one year	5.93%	$ 1,630,000	$ 1,631,605	$ 1,020	$ (1,154)	$ 1,631,471
1-3 years	5.97%	2,915,000	2,937,618	280	(14,021)	2,923,877
3-5 years	6.34%	705,000	739,940	2,131	(4,218)	737,853
5-10 years	5.61%	2,713,214	2,771,691	5,896	(126,467)	2,651,120
Total		$ 7,963,214	$ 8,080,854	$ 9,327	$ (145,860)	$ 7,944,321
			Available-for-Sale			
Less than one year	5.62%	$ 150,000	$ 150,379	$ 22	$ (14)	$ 150,387
1-3 years	5.17%	80,000	81,096	0	(1,046)	80,050
3-5 years	6.28%	240,000	255,838	0	(2,151)	253,687
5-10 years	5.03%	1,447,582	1,443,149	0	(28,555)	1,414,594
Total		$ 1,917,582	$ 1,930,462	$ 22	$ (31,766)	$ 1,898,718
			Total Investment in U.S. Treasury Obligations, Net			
Total		$ 9,880,796	$ 10,011,316	$ 9,349	$ (177,626)	$ 9,843,039

(a) For TIIS, the yields in the above table include their stated real yields at purchase, not their effective yields. Effective yields on TIIS would include the stated real yield at purchase plus an inflation adjustment of 2.6%, which was the latest year-over-year increase in the CPI as reported by the Bureau of Labor Statistics on December 14, 1999. These effective yields are 6.47% and 6.71% for TIIS classified as held-to-maturity and available-for-sale, respectively.

U.S. Treasury Obligations, Net at December 31, 1998 (Unrestricted)

Dollars in Thousands

Maturity	Stated Yield at Purchase		Face Value		Amortized Cost		Unrealized Holding Gains		Unrealized Holding Losses		Market Value
					Held-to-Maturity						
Less than one year	5.82%	$	1,490,000	$	1,496,779	$	8,790	$	0	$	1,505,569
1-3 years	5.96%		3,585,000		3,609,527		88,035		0		3,697,562
3-5 years	6.04%		1,640,000		1,703,669		76,027		0		1,779,696
5-10 years	6.00%		1,615,000		1,664,974		117,633		0		1,782,607
Total		$	8,330,000	$	8,474,949	$	290,485	$	0	$	8,765,434
					Available-for-Sale						
Less than one year	5.55%	$	370,000	$	373,840	$	2,172	$	0	$	376,012
1-3 years	5.61%		205,000		208,743		2,082		0		210,825
Total		$	575,000	$	582,583	$	4,254	$	0	$	586,837
					Total Investment in U.S. Treasury Obligations, Net						
Total		**$**	**8,905,000**	**$**	**9,057,532**	**$**	**294,739**	**$**	**0**	**$**	**9,352,271**

As of December 31, 1999 and 1998, the book value of Investment in U.S. Treasury obligations, net is $10.0 billion and $9.1 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities.

As of December 31, 1999, the unamortized premium, net of unamortized discount, was $130.5 million. As of December 31, 1998, the unamortized premium, net of the unamortized discount, was $152.5 million.

5. Receivables from Thrift Resolutions, Net

The thrift resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the SAIF against the receiverships' assets. There was one thrift failure in 1999 with assets at failure of $63 million and SAIF outlays of $63 million, and no thrift failures in 1998.

As of December 31, 1999 and 1998, the FDIC, in its receivership capacity for SAIF-insured institutions, held assets with a book value of $114.0 million and $46.1 million, respectively (including cash and miscellaneous receivables of $104.0 million and $45.7 million at December 31, 1999, and 1998, respectively). These assets represent a significant source of repayment of the SAIF's receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These

factors could cause the SAIF's and other claimants' actual recoveries to vary from the level currently estimated.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions
The SAIF records a contingent liability and a loss provision for thrifts (including Oakar and Sasser financial institutions) that are likely to fail, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liabilities for anticipated failure of insured institutions as of December 31, 1999 and 1998, were $56 million and $31 million, respectively. The contingent liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable thrift failures. Therefore, these estimates are subject to the same uncertainties as those affecting the SAIF's receivables from thrift resolutions (see Note 5). Consequently, this could affect the ultimate cost to the SAIF from probable failures.

There are other thrifts where the risk of failure is less certain, but still considered reasonably possible. Should these thrifts fail, the SAIF could incur additional estimated losses ranging from $1 million to $87 million.

The accuracy of these estimates will largely depend on future economic conditions. The Board has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

Year 2000 Anticipated Failures
The SAIF is also subject to a potential loss from thrifts that may fail if they are unable to become Year 2000 compliant in a timely manner. In May 1997, the federal financial institution regulatory agencies developed a program to conduct uniform reviews of all FDIC-insured institutions' Year 2000 readiness. The program assessed the five key phases of an institution's Year 2000 conversion efforts: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation. The reviews classified each institution as Satisfactory, Needs Improvement, or Unsatisfactory. Performance was defined as Satisfactory when Year 2000 weaknesses were minor in nature and could be readily corrected within the program management framework.

In order to assess exposure to the SAIF from Year 2000 potential failures, the FDIC evaluated all information relevant to such an assessment, to include multiple Year 2000 on-site examination results, institution capital levels and supervisory examination composite ratings, and other institution past and current financial characteristics. Based on data updated through December 31, 1999, all SAIF-insured institutions have received a Satisfactory rating. As a result of this assessment, we conclude that, as of December 31, 1999, there are no probable or reasonably possible losses to the SAIF from Year 2000 failures.

Litigation Losses
The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. For 1999 and 1998, no legal cases were deemed probable in occurrence. The FDIC has determined that losses from unresolved legal cases totaling $620 thousand are reasonably possible.

7. Assessments

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for SAIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to 1.25 percent of insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

The DIFA (see Note 1) provided, among other things, for the capitalization of the SAIF to its DRR of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. The SAIF achieved its required capitalization by means of a $4.5 billion special assessment effective October 1, 1996. Since October 1996, the SAIF has maintained a capitalization level at or higher than the DRR of 1.25 percent of insured deposits. As of December 31, 1999, the capitalization level for the SAIF is 1.45 percent of estimated insured deposits.

The DIFA provided for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions (including thrifts, banks, and Oakar and Sasser financial institutions). It also made the FICO assessment separate from regular assessments, effective on January 1, 1997.

The FICO assessment has no financial impact on the SAIF. The FICO assessment is separate from the regular assessments and is imposed on thrifts and banks, not on the insurance funds. The FDIC, as administrator of the SAIF and the BIF, is acting solely as a collection agent for the FICO. During 1999 and 1998, $426 million and $446 million, respectively, was collected from SAIF-member institutions and remitted to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 0.20 cents and 0.21 cents per $100 of assessable deposits for 1999 and 1998, respectively. On November 8, 1999, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2000. The Board reviews premium rates semiannually.

8. Pension Benefits, Savings Plans, and Accrued Annual Leave

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits, and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on SAIF's operating expenses for 1998.

Although the SAIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The SAIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $4.4 million at both December 31, 1999 and 1998.

Pension Benefits and Savings Plans Expenses for the Years Ended December 31

Dollars in Thousands

	1999	1998
CSRS/FERS Disability Fund	$ 0	$ 140
Civil Service Retirement System	1,276	1,242
Federal Employees Retirement System (Basic Benefit)	3,268	3,002
FDIC Savings Plan	2,029	1,947
Federal Thrift Savings Plan	1,267	1,176
Total	$ 7,840	$ 7,507

9. Postretirement Benefits Other Than Pensions

On January 2, 1998, the SAIF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 FDIC employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the SAIF's obligation for postretirement health benefits for these employees at no initial enrollment cost. In addition, legislation was passed that allowed the remaining 2,600 FDIC retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999. The OPM assumed the SAIF's obligation for postretirement health benefits for retirees and near retirees for a fee of $3.7 million. The OPM is now responsible for postretirement health benefits for all FDIC employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constituted both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of $5.5 million to the SAIF in 1998.

Postretirement Benefits Other Than Pensions				
Dollars in Thousands				
		1999		1998
Funded Status at December 31				
Fair value of plan assets (a)	$	5,160	$	5,048
Less: Benefit obligation		5,833		5,048
Under Funded Status of the Plans	**$**	**673**	**$**	**0**
Accrued benefit liability recognized in the Statements of Financial Position	$	673	$	0
Expenses and Cash Flows for the Period Ended December 31				
Net periodic benefit cost	$	483	$	1,516
Employer contributions		129		718
Benefits paid		129		718
Weighted-Average Assumptions at December 31				
Discount rate		4.50%		4.50%
Expected return on plan assets		4.50%		4.50%
Rate of compensation increase		3.00%		4.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to be subject to an annual cap of $2,000.

10. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases
The SAIF's allocated share of the FDIC's lease commitments totals $17.5 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF, the BIF, and the FRF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of $5.7 million and $4.8 million for the years ended December 31, 1999 and 1998, respectively.

Lease Commitments
Dollars in Thousands

2000	2001	2002	2003	2004	2005
$4,576	$4,023	$3,861	$2,670	$1,537	$821

Off-Balance-Sheet Exposure

Deposit Insurance
As of December 31, 1999, deposits insured by the SAIF totaled approximately $711 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

Asset Putbacks
Upon resolution of a failed thrift, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain assets may be resold, or "putback," to the receivership. The values and time limits for these assets to be putback are defined within each agreement. It is possible that the SAIF could be called upon to fund the purchase of any or all of the "unexpired putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under the existing agreements is $40.1 million. The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the acquirer initiates the asset putback procedures. The FDIC projects that a total of $443 thousand in book value of assets will be putback.

11. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Notes 3 and 4 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparisons with current interest rates. As explained in Note 3, entrance and exit fees receivables are net of discounts calculated using an interest rate comparable to U.S. Treasury Bill or Government bond/note rates at the time the receivables are accrued.

The net receivables from thrift resolutions primarily include the SAIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the SAIF's allowance for loss against the net receivables from thrift resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 5), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the SAIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership

assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from thrift resolutions.

12. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

	1999	1998
Net Income	$ 476,839	$ 467,230
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	30,648	31,992
Amortization of U.S. Treasury obligations (unrestricted)	51,708	41,198
TIIS inflation adjustment	(11,818)	0
Gain on conversion of benefit plan	0	5,464
Change in Assets and Liabilities:		
Decrease in amortization of U.S. Treasury obligations (restricted)	808	304
(Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	(13,500)	(20,187)
(Increase) in receivables from thrift resolutions	(41,450)	(4,700)
(Decrease) in accounts payable and other liabilities	(2,325)	(3,126)
(Decrease) in contingent liability for anticipated failure of insured institutions	(17,000)	0
Increase in exit fees and investment proceeds held in escrow	14,701	14,242
Net Cash Provided by Operating Activities	$ 488,611	$ 532,417

13. Year 2000 Issues

State of Readiness

The FDIC, as administrator for the SAIF, conducted a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant. This meant that systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. An oversight committee comprised of FDIC division management directed the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) led the Year 2000 effort, under the direction of the oversight committee. The internal Year 2000 team used a structured approach and rigorous program management as described in the U.S. General Accounting Office's (GAO) *Year 2000 Computing Crisis: An Assessment Guide.* This methodology consisted of five phases under the overall umbrellas of Program and Project Management. The FDIC completed all of the recommended GAO phases: Awareness, Assessment, Renovation, Validation, and Implementation.

As a precautionary measure, the FDIC developed a Year 2000 Rollover Weekend Strategy to monitor the information systems during the transition into the year 2000. Contingency plans were in place for mission-critical application failures and for other systems. No major problems were anticipated due to the extensive planning and validation that occurred (see Note 14).

Year 2000 Estimated Costs
Year 2000 compliance expenses for the SAIF are estimated at $6.5 million and $4.4 million at December 31, 1999 and 1998, respectively. These expenses are reflected in the "Operating expenses" line of the SAIF's Statements of Income and Fund Balance.

14. Subsequent Events

Year 2000 Effect on Internal Systems
On January 1, 2000, all FDIC systems were operating normally as a result of a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant prior to December 31, 1999. No internal system failures have occurred and none are anticipated (see Note 13).

Year 2000 Effect on Anticipated Failures
As of May 5, 2000, no thrifts had failed due to Year 2000 related problems and none are anticipated. Refer to "Contingent Liabilities for: Year 2000 Anticipated Failures" (see Note 6).

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position at December 31

Dollars in Thousands

		1999		1998
Assets				
Cash and cash equivalents	$	2,948,138	$	4,631,379
Receivables from thrift resolutions, net (Note 3)		1,366,344		1,516,565
Investment in securitization related assets acquired from receiverships (Note 4)		2,675,374		4,424,237
Assets acquired from assisted thrifts and terminated receiverships, net (Note 5)		34,407		64,101
Other assets, net (Note 6)		7,159		40,721
Total Assets	$	**7,031,422**	$	**10,677,003**
Liabilities				
Accounts payable and other liabilities	$	73,620	$	40,396
Liabilities from thrift resolutions (Note 7)		296,817		202,836
Contingent liabilities for: (Note 8)				
Assistance agreements		4,751		4,852
Litigation losses		1,445		18,340
Total Liabilities		**376,633**		**266,424**
Commitments and concentration of credit risk (Note 13 and Note 14)				
Resolution Equity (Note 10)				
Contributed capital		131,328,499		135,490,742
Accumulated deficit		(124,913,461)		(125,320,868)
Unrealized gain on available-for-sale securities, net (Note 4)		239,751		240,705
Accumulated deficit, net		(124,673,710)		(125,080,163)
Total Resolution Equity		**6,654,789**		**10,410,579**
Total Liabilities and Resolution Equity	$	**7,031,422**	$	**10,677,003**

The accompanying notes are an integral part of these financial statements.

Statements of Income and Accumulated Deficit

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Income and Accumulated Deficit for the Years Ended December 31

Dollars in Thousands

	1999	1998
Revenue		
Interest on securitization related assets acquired from receiverships	$ 104,232	$ 262,962
Interest on U.S. Treasury obligations	108,001	109,045
Interest on advances and subrogated claims	19,033	212,645
Gain on conversion of benefit plan (Note 12)	0	39,297
Revenue from assets acquired from assisted thrifts and terminated receiverships	25,476	40,124
Limited partnership equity interests and other revenue	23,787	28,879
Realized gain on investment in securitization related assets acquired from receiverships (Note 4)	93,113	49,642
Total Revenue	**373,642**	**742,594**
Expenses and Losses		
Operating expenses	83,317	56,336
Provision for losses (Note 9)	(278,267)	(1,176,165)
Expenses for goodwill settlements and litigation	80,921	154,492
Expenses for assets acquired from assisted thrifts and terminated receiverships	15,664	19,652
Interest expense on Federal Financing Bank debt and other notes payable	2,240	22,413
Other expenses	4,410	3,834
Realized loss on investment in securitization related assets acquired from receiverships (Note 4)	57,950	4,239
Total Expenses and Losses	**(33,765)**	**(915,199)**
Net Income	**407,407**	**1,657,793**
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)	(954)	199,692
Comprehensive Income	**406,453**	**1,857,485**
Accumulated Deficit - Beginning	**(125,080,163)**	**(126,937,648)**
Accumulated Deficit - Ending	**$ (124,673,710)**	**$ (125,080,163)**

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	1999	1998
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 108,001	$ 109,045
Interest on securitization related assets acquired from receiverships	111,159	243,134
Recoveries from thrift resolutions	592,198	890,566
Recoveries from limited partnership equity interests	80,046	188,801
Recoveries from assets acquired from assisted thrifts and terminated receiverships	103,699	48,580
Recoveries on conversion of benefit plan	28,332	0
Miscellaneous receipts	8,166	1,383
Cash used by:		
Operating expenses	(97,299)	(78,526)
Interest paid on notes payable	0	(29,997)
Disbursements for thrift resolutions	(82,069)	(177,365)
Disbursements for goodwill settlements and litigation expenses	(80,921)	(154,492)
Disbursements for assets acquired from assisted thrifts and terminated receiverships	(40,690)	(26,952)
Miscellaneous disbursements	(6)	(220)
Net Cash Provided by Operating Activities (Note 16)	**730,616**	**1,013,957**
Cash Flows From Investing Activities		
Cash provided by:		
Investment in securitization related assets acquired from receiverships, available-for-sale	1,752,917	2,408,667
Cash used for:		
Purchase of investment in securitization related assets acquired from receiverships, available-for-sale	0	(25,425)
Net Cash Provided by Investing Activities	**1,752,917**	**2,383,242**
Cash Flows From Financing Activities		
Cash provided by:		
U.S. Treasury payments for goodwill settlements	1,000	0
Cash used for:		
Return of U.S. Treasury payments (Note 10)	(4,167,774)	(3,020)
Repayments of Federal Financing Bank borrowings	0	(838,412)
Repayments of indebtedness from thrift resolutions	0	(31,559)
Net Cash Used by Financing Activities	**(4,166,774)**	**(872,991)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(1,683,241)**	**2,524,208**
Cash and Cash Equivalents - Beginning	**4,631,379**	**2,107,171**
Cash and Cash Equivalents - Ending	**$ 2,948,138**	**$ 4,631,379**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Notes to the Financial Statements
FSLIC Resolution Fund
December 31, 1999 and 1998

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History

The U.S. Congress created the Federal Savings and Loan Insurance Corporation (FSLIC) through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF (except those assets and liabilities transferred to the Resolution Trust Corporation (RTC)), effective on August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

The FIRREA was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. In addition to the FRF, FIRREA created the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The FIRREA also created the RTC to manage and resolve all thrifts previously insured by the FSLIC for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions. Additionally, funds were appropriated for RTC resolutions pursuant to FIRREA, the RTC Funding Act of 1991, the RTC Refinancing, Restructuring and Improvement Act of 1991, and the RTC Completion Act of 1993.

The RTC's resolution responsibility was extended through subsequent legislation from the original termination date of August 8, 1992. Resolution responsibility transferred from the RTC to the SAIF on July 1, 1995.

The RTC Completion Act of 1993 (RTC Completion Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC on August 9, 1989 (FRF-FSLIC), and the other composed of the RTC assets and liabilities transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

The RTC Completion Act requires the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by the RTC. The RTC Completion Act made available approximately $18 billion worth of additional funding. The RTC actually drew down $4.6 billion. During 1999, the FRF-RTC returned $4.2 billion to the U.S. Treasury.

The FDIC must transfer to the REFCORP the net proceeds from the FRF's sale of RTC assets, after providing for all outstanding RTC liabilities. Any such funds transferred to the REFCORP pay the interest on the REFCORP bonds issued to fund the early RTC resolutions. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds (see Note 10).

Operations of the FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the U.S. Treasury to repay RTC Completion Act appropriations and to the REFCORP to pay the interest on the REFCORP bonds.

The FRF has been primarily funded from the following sources: 1) U.S. Treasury appropriations; 2) amounts borrowed by the RTC from the Federal Financing Bank (FFB); 3) amounts received from the issuance of capital certificates to REFCORP; 4) funds received from the management and disposition of assets of the FRF; 5) the FRF's portion of liquidating dividends paid by FRF receiverships; and 6) interest earned on Special U.S. Treasury Certificates purchased with proceeds of 4) and 5). If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as appropriated by Congress, to carry out the objectives of the FRF.

Public Law 103-327 provided $827 million in funding to be available until expended to facilitate efforts to wind up the resolution activity of the FRF-FSLIC. The FRF received $165 million under this appropriation on November 2, 1995. In addition, Public Law 104-208 and Public Law 105-61 authorized the use by the U.S. Department of Justice (DOJ) of $26.1 million and $33.7 million, respectively, from the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million. The funding made available to DOJ covers the reimbursement of reasonable expenses of litigation incurred in the defense of claims against the United States arising from the goodwill litigation cases.

Additional goodwill litigation expenses incurred by DOJ are paid directly from the FRF-FSLIC based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid $79.1 million and $51.2 million to DOJ for fiscal years 1999 and 1998, respectively. Separate funding for goodwill judgments and settlements is available through Public Law 106-113 (see Note 8).

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from FRF assets and liabilities to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the FRF on behalf of the receiverships are recovered from those receiverships.

2. Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations, and cash flows of the FRF and are presented in accordance with generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the FDIC acts as receiver or liquidating agent. Periodic and final

accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

Use of Estimates
FDIC management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash Equivalents
Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents primarily consist of Special U.S. Treasury Certificates.

Investment in Securitization Related Assets Acquired from Receiverships
The investment in securitization related assets acquired from receiverships is recorded pursuant to the provisions of the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. The investment in securitization related assets acquired from receiverships is classified as available-for-sale and is shown at fair value with unrealized gains and losses included in Resolution Equity. Realized gains and losses are included in the Statements of Income and Accumulated Deficit as components of Net Income. The FRF does not have any securities classified as held-to-maturity or trading.

Allowance for Losses on Receivables from Thrift Resolutions and Assets Acquired from Assisted Thrifts and Terminated Receiverships
The FRF records a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. The FRF also records as an asset the amounts paid for assets acquired from assisted thrifts and terminated receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all applicable estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Cost Allocations Among Funds
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the FRF, the BIF, and the SAIF. Each fund pays its liabilities for these benefits directly to the entity. The FRF's unfunded net postretirement benefits liability is presented in FRF's Statements of Financial Position.

Disclosure About Recent Accounting Standard Pronouncements
In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the FRF's disclosures for postretirement benefits have been made, the impact is not material.

Other recent pronouncements are not applicable to the financial statements.

Wholly Owned Subsidiary
The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. The investment in the FADA is accounted for using the equity method and is included in the "Other assets, net" line item (see Note 6). Final judgment on the remaining litigation was made on December 16, 1998. FADA was terminated with a final liquidating dividend by December 31, 1999.

Related Parties
Limited Partnership Equity Interests. Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs that included the National Land Fund, Multiple Investor Fund, N-Series, and S-Series programs. The majority of the limited partnership equity interests have been transferred from the receiverships to the FRF. These assets are included in the "Receivables from thrift resolutions, net" line item in the FRF's Statements of Financial Position. The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1998 financial statements to conform to the presentation used in 1999.

Restatement
The credit enhancement escrow accounts included in the "Investment in securitization related assets acquired from receiverships" have been restated to conform with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and to reflect the related impact on each primary financial statement. The change is due to interpretations in the FASB's recently issued special report, "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and to recognize the investment characteristics of the credit enhancement escrow accounts.

Additionally, corrections were made for immaterial offsetting errors relating to the purchase price of the credit enhancement escrow accounts and the residual certificates and to the associated gain or loss calculations. The impact of these restatements on the January 1, 1998 accumulated deficit is a reduction of $35.3 million.

3. Receivables from Thrift Resolutions, Net

The thrift resolution process took different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that failed were made to cover obligations to insured depositors and represent claims by the FRF against the

receiverships' assets. Payments to prevent a failure were made to operating institutions when cost and other criteria were met.

As of December 31, 1999 and 1998, the FDIC, in its receivership capacity for the former FSLIC and SAIF-insured institutions, held assets with a book value of $2.1 billion and $2.6 billion, respectively (including cash and miscellaneous receivables of $1.5 billion and $1.6 billion at December 31, 1999 and 1998, respectively). These assets represent a significant source of repayment of the FRF's receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could cause the FRF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables from Thrift Resolutions, Net at December 31

Dollars in Thousands

		1999		1998
Assets from open thrift assistance	$	437,265	$	529,123
Allowance for losses		(385,537)		(386,935)
Net Assets From Open Thrift Assistance		**51,728**		**142,188**
Receivables from closed thrifts		51,720,279		72,874,857
Allowance for losses		(50,405,663)		(71,500,480)
Net Receivables From Closed Thrifts		**1,314,616**		**1,374,377**
Total	$	**1,366,344**	$	**1,516,565**

Representations and Warranties

The RTC provided guarantees, representations, and warranties on approximately $107 billion in unpaid principal balance of loans sold and approximately $132 billion in unpaid principal balance of loans under servicing right contracts that had been sold. In general, the guarantees, representations, and warranties on loans sold related to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The representations and warranties made in connection with the sale of servicing rights were limited to the responsibilities of acting as a servicer of the loans. Future losses on representations and warranties could significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as 20 years.

The FRF includes estimates of corporate losses related to the receiverships' representations and warranties as part of the FRF's allowance for loss valuation. The allowance for these estimated losses was $30 million and $81 million as of December 31, 1999 and 1998, respectively. There are additional amounts of representation and warranty claims that are considered reasonably possible. As of December 31, 1999, the amount is estimated at $339 million. The contingent liability for representations and warranties associated with loan sales that involved assets acquired from assisted thrifts and terminated receiverships are included in "Accounts payable and other liabilities" ($4 million and $5 million for 1999 and 1998, respectively).

4. Investment in Securitization Related Assets Acquired from Receiverships

In order to maximize the return from the sale or disposition of assets, the RTC engaged in numerous securitization transactions. The RTC sold $42.4 billion of receivership, conservatorship, and corporate loans to various trusts that issued regular pass-through certificates through its mortgage-backed securities program.

A portion of the proceeds from the sale of the certificates was placed in credit enhancement escrow accounts (escrow accounts) to cover future credit losses with respect to the loans underlying the certificates. In addition, the escrow accounts were established to increase the likelihood of full and timely distributions of interest and principal to the certificate holders and thus increase the marketability of the certificates. The FRF's exposure from credit losses on loans sold through the program is limited to the balance of the escrow accounts. The FRF is entitled to any proceeds remaining in the escrow accounts at termination of the securitization transactions. The FRF also receives periodic returns of portions of the escrow account balances during the life of the transactions, if the trustee deems the funds held to be excessive.

As part of the securitization transactions, the receiverships received a participation in the residual pass-through certificates (residual certificates) issued through its mortgage-backed securities program. The residual certificates entitle the holder to any cash flow from the sale of collateral remaining in the trust after the regular pass-through certificates and actual termination expenses are paid.

The escrow accounts were transferred from the receiverships to the FRF for $5.7 billion. This transfer was offset by amounts owed by the receiverships to the FRF. The residual certificates were transferred from the receiverships to the FRF for $1.4 billion. This transfer was also offset by amounts owed by the receiverships to the FRF.

The FRF received $910 million in proceeds from terminations during 1999 and $1.2 billion during 1998. Realized gains and losses are recorded based upon the difference between the proceeds at termination of the deal and the cost of the original investment. Realized gains and losses are calculated on both the escrow account and the related residual certificate. Unrealized gains and losses are computed on a quarterly basis using a cash flow model that calculates the estimated fair value of the assets at termination. This model is updated with current data supplied by the trustees, which includes prepayment speed, delinquency rates, and market pricing. Additionally, the FRF earned interest income on the investment in securitization related assets acquired from receiverships of $104.2 million during 1999 and $263 million during 1998.

Investment in Securitization Related Assets Acquired from Receiverships at December 31, 1999								
Dollars in Thousands		Cost		Unrealized Holding Gains		Unrealized Holding Losses		Fair Value
Credit enhancement escrow accounts	$	1,563,722	$	249,185	$	(121,251)	$	1,691,656
Residual certificates		871,901		111,817		0		983,718
Total	$	**2,435,623**	$	**361,002**	$	**(121,251)**	$	**2,675,374**

Investment in Securitization Related Assets Acquired from Receiverships at December 31, 1998								
Dollars in Thousands		Cost		Unrealized Holding Gains		Unrealized Holding Losses		Fair Value
Credit enhancement escrow accounts	$	2,996,584	$	278,179	$	(115,183)	$	3,159,580
Residual certificates		1,186,948		80,887		(3,178)		1,264,657
Total	$	**4,183,532**	$	**359,066**	$	**(118,361)**	$	**4,424,237**

5. Assets Acquired from Assisted Thrifts and Terminated Receiverships, Net

The FRF's assets acquired from assisted thrifts and terminated receiverships include: 1) assets the former FSLIC and the former RTC purchased from failing or failed thrifts and 2) assets the FRF acquired from receiverships and purchased under assistance agreements. The methodology to estimate cash recoveries from these assets, which are used to derive the related allowance for losses, is similar to that for receivables from thrift resolutions (see Note 3). The estimated cash recoveries are based upon a statistical sampling of the assets but only include expenses for the disposition of the assets.

The FRF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of proceeds from professional liability claims, interest earned on loans, gain on the sale of owned assets, and other liquidation income. Expenses are recognized for the management and liquidation of these assets.

Assets Acquired from Assisted Thrifts and Terminated Receiverships, Net at December 31				
Dollars in Thousands		1999		1998
Assets acquired from assisted thrifts and terminated receiverships	$	148,584	$	216,006
Allowance for losses		(114,177)		(151,905)
Total	$	**34,407**	$	**64,101**

6. Other Assets, Net

Other Assets, Net at December 31 Dollars in Thousands		1999		1998
Investment in FADA (Note 2)	$	0	$	15,000
Allowance for loss		0		(11,074)
Investment in FADA, Net		**0**		**3,926**
Accounts receivable		7,159		33,200
Due from other government entities		0		3,595
Other Receivables		**7,159**		**36,795**
Total	**$**	**7,159**	**$**	**40,721**

7. Liabilities from Thrift Resolutions

The FSLIC issued promissory notes and entered into assistance agreements to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Pursuant to FIRREA, the FRF assumed these obligations. Notes payable and obligations for assistance agreements are presented in the "Liabilities from thrift resolutions" line item. Estimated future assistance payments are included in the "Contingent liabilities for: Assistance agreements" line item (see Note 8).

Liabilities from Thrift Resolutions at December 31 Dollars in Thousands		1999		1998
Assistance agreement notes payable	$	62,360	$	62,360
Interest payable		4,156		994
Other liabilities to thrift institutions		6,801		10,982
Estimated cost associated with liquidating assets		223,500		128,500
Total	**$**	**296,817**	**$**	**202,836**

8. Contingent Liabilities for:

Assistance Agreements
The contingent liabilities for assistance agreements are $4.8 million and $4.9 million at December 31, 1999 and 1998, respectively. The liability represents an estimate of future assistance payments to acquirers of troubled thrift institutions. There were 28 and 33 assistance agreements outstanding as of December 31, 1999 and 1998, respectively. The last agreement is scheduled to expire in July 2000.

Litigation Losses
The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $141.3 million are reasonably possible.

Additional Contingency

In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the Federal Home Loan Bank Board to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. To date, approximately 120 lawsuits have been filed against the United States based on alleged breaches of these agreements (Goodwill Litigation).

On July 23, 1998, the U.S. Treasury determined, based on an opinion of the DOJ's Office of Legal Counsel (OLC) dated July 22, 1998, that the FRF is legally available to satisfy all judgments and settlements in the Goodwill Litigation involving supervisory action or assistance agreements. The U.S. Treasury further determined that the FRF is the appropriate source of funds for payments of any such judgments and settlements.

The OLC opinion concluded that the nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. Under the analysis set forth in the OLC opinion, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements or judgments arising out of the Goodwill Litigation.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On January 31, 2000, the DOJ informed the FDIC that, in the approximately 100 remaining cases which are in litigation at the trial court level, "it is too early to predict the extent of any litigation risk." The DOJ notes that this uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of judgments and settlements in the Goodwill Litigation. However, based on the response from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the Goodwill Litigation, or determine whether any such loss would have a material effect on the financial condition of the FRF-FSLIC.

Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) provides to the FRF-FSLIC such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill Litigation, to remain available until expended. Even if the Goodwill Litigation judgments and compromise settlements were to exceed other available resources of the FRF-FSLIC, an appropriation is available to pay such judgments and settlements. In these circumstances, any liabilities for the Goodwill Litigation should have no material impact on the financial condition of the FRF-FSLIC.

9. Provision for Losses

The provision for losses was a negative $278 million and a negative $1.2 billion for 1999 and 1998, respectively. In both years, the negative provision resulted primarily from decreased losses expected for assets in liquidation. The following chart lists the major components of the negative provision for losses.

Provision for Losses for the Years Ended December 31

Dollars in Thousands

	1999	1998
Valuation Adjustments:		
Open thrift assistance	$ 10,092	$ 12,514
Recovery of tax benefits	(110,061)	(115,401)
Closed thrifts	(284,699)	(1,150,567)
Estimated cost associated with liquidating assets	95,000	128,500
Assets acquired from assisted thrifts and terminated receiverships	15,907	(66,709)
Investment in securitization related assets acquired from receiverships	16,357	0
Miscellaneous receivables	0	(42)
Total Valuation Adjustments	**(257,404)**	**(1,191,705)**
Contingent Liabilities:		
Litigation losses	(20,863)	15,540
Total Contingent Liabilities	**(20,863)**	**15,540**
Total	**$ (278,267)**	**$ (1,176,165)**

10. Resolution Equity

As stated in the Legislative History section of Note 1, the FRF is comprised of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.

Resolution Equity at December 31, 1999
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,156,000	$ 91,334,742	$ 135,490,742
Miscellaneous payments/adjustments	1,000	4,531	5,531
Less: U.S. Treasury repayments	0	(4,167,774)	(4,167,774)
Contributed capital - ending	**44,157,000**	**87,171,499**	**131,328,499**
Accumulated deficit	(41,929,682)	(82,743,074)	(124,672,756)
Less: Unrealized loss on available-for-sale securities	0	(954)	(954)
Accumulated deficit, net	**(41,929,682)**	**(82,744,028)**	**(124,673,710)**
Total	**$ 2,227,318**	**$ 4,427,471**	**$ 6,654,789**

Resolution Equity at December 31, 1998
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital	**$ 44,156,000**	**$ 91,334,742**	**$ 135,490,742**
Accumulated deficit	(42,057,685)	(83,222,170)	(125,279,855)
Less: Unrealized gain on available-for-sale securities	0	199,692	199,692
Accumulated deficit, net	**(42,057,685)**	**(83,022,478)**	**(125,080,163)**
Total	**$ 2,098,315**	**$ 8,312,264**	**$ 10,410,579**

Contributed Capital
To date, the FRF-FSLIC and the former RTC received $43.5 billion and $60.1 billion from the U.S. Treasury, respectively. These payments were used to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued $670 million in capital certificates to the FICO and the RTC issued $31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates.

The FRF-FSLIC's contributed capital at December 31, 1999, includes $1 million received from the U.S. Treasury to fund a current year goodwill litigation settlement (see Note 8). The FRF-RTC's contributed capital at December 31, 1999, includes an adjustment of $4.5 million that relates to prior year appropriations.

Accumulated Deficit
The accumulated deficit represents the cumulative excess of expenses over revenue for activity related to the former FSLIC and the former RTC ($29.7 billion and $87.9 billion were brought forward from the FSLIC and RTC, respectively).

Resolution Equity Restrictions
FRF-RTC: The former RTC drew down $4.6 billion of the approximately $18 billion made available by the RTC Completion Act. The RTC Completion Act requires the FDIC to deposit in the general fund of the U.S. Treasury any funds transferred to the RTC but not needed by the RTC. The FDIC returned $4.2 billion to the U.S. Treasury on behalf of the FRF-RTC, pursuant to the RTC Completion Act, during 1999.

In addition, the FDIC must transfer net proceeds from the sale of RTC assets to pay interest on the REFCORP bonds, after providing for all outstanding RTC liabilities. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds (see Note 1).

11. Pension Benefits, Savings Plans, and Accrued Annual Leave

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits, and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on FRF's operating expenses for 1998.

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $6.9 million and $5.4 million at December 31, 1999 and 1998, respectively.

Pension Benefits and Savings Plans Expenses for the Years Ended December 31

Dollars in Thousands

	1999	1998
CSRS/FERS Disability Fund	$ 0	$ 308
Civil Service Retirement System	1,367	1,382
Federal Employees Retirement System (Basic Benefit)	4,687	4,438
FDIC Savings Plan	2,619	2,619
Federal Thrift Savings Plan	1,767	1,675
Total	**$ 10,440**	**$ 10,422**

12. Postretirement Benefits Other Than Pensions

On January 2, 1998, the FRF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced

when over 6,500 FDIC employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the FRF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 FDIC retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999. The OPM assumed the FRF's obligation for postretirement health benefits for retirees and near retirees for a fee of $32 million. The OPM is now responsible for postretirement health benefits for all FDIC employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

The OPM's assumption of the health care obligation constituted both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of $39 million to the FRF in 1998.

Postretirement Benefits Other Than Pensions				
Dollars in Thousands		1999		1998
Funded Status at December 31				
Fair value of plan assets (a)	$	14,994	$	14,337
Less: Benefit obligation		16,130		14,337
Under Funded Status of the Plans	**$**	**1,136**	**$**	**0**
Accrued benefit liability recognized in the Statements of Financial Position	$	1,136	$	0
Expenses and Cash Flows for the Period Ended December 31				
Net periodic benefit cost	$	563	$	(919)
Employer contributions		202		886
Benefits paid		202		886
Weighted-Average Assumptions at December 31				
Discount rate		4.50%		4.50%
Expected return on plan assets		4.50%		4.50%
Rate of compensation increase		3.00%		4.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to be subject to an annual cap of $2,000.

13. Commitments

Letters of Credit

The RTC had adopted special policies that included honoring outstanding conservatorship and receivership collateralized letters of credit. This enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were issued by thrifts that later failed and were used to guarantee tax-exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or

families. As of December 31, 1999 and 1998, securities pledged as collateral to honor these letters of credit totaled $7.6 million and $21.4 million, respectively. The FRF estimated corporate losses related to the receiverships' letters of credit as part of the allowance for loss valuation. The allowance for these losses was $1.1 million and $6.3 million as of December 31, 1999 and 1998, respectively.

Leases
The FRF's allocated share of the FDIC's lease commitments totals $22.6 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC's future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads could cause the amounts allocated to the FRF in the future to vary from the amount shown below. The FRF recognized leased space expense of $7.2 million and $6.3 million for the years ended December 31, 1999 and 1998, respectively.

Lease Commitments

Dollars in Thousands

2000	2001	2002	2003	2004	2005
$5,738	$5,095	$5,001	$3,439	$2,036	$1,253

14. Concentration of Credit Risk

As of December 31, 1999, the FRF had gross receivables from thrift resolutions totaling $52.2 billion, gross assets acquired from assisted thrifts and terminated receiverships totaling $149 million, and an investment in securitization related assets acquired from receiverships totaling $2.7 billion. The allowance for loss against receivables from thrift resolutions totaled $51.0 billion, and the allowance against the assets acquired from assisted thrifts and terminated receiverships totaled $114 million.

Cash recoveries may be influenced by economic conditions. Similarly, the value of the investment in securitization related assets acquired from receiverships can be influenced by the economy of the area relating to the underlying loans and other assets. Accordingly, the FRF's maximum exposure to possible accounting loss is the recorded (net of allowance) value and is also shown in the table below.

Concentration of Credit Risk at December 31, 1999							
Dollars in Millions	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from thrift resolutions, net	$184	$33	$876	$151	$31	$91	$1,366
Assets acquired from assisted thrifts and terminated receiverships, net	0	33	1	0	0	0	34
Investment in securitization related assets acquired from receiverships	489	313	288	80	67	1,438	2,675
Total	$673	$379	$1,165	$231	$98	$1,529	$4,075

15. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of short-term receivables and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

The net receivables from thrift resolutions primarily include the FRF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the FRF's allowance for loss against the net receivables from thrift resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 3), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the FRF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from thrift resolutions.

The majority of the net assets acquired from assisted thrifts and terminated receiverships (except real estate) is comprised of various types of financial instruments, including investments, loans, and accounts receivable. Like receivership assets, assets acquired from assisted thrifts and terminated receiverships are valued using discount rates that include consideration of market risk. However, assets acquired from assisted thrifts and terminated receiverships do not involve

the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

The investment in securitization related assets acquired from receiverships is adjusted to fair value at each reporting date using a valuation model that estimates the present value of estimated expected future cash flows discounted for the various risks involved, including both market and credit risks, as well as other attributes of the underlying assets (see Note 4).

16. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

	1999	1998
Net Income	$ 407,407	$ 1,657,793
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Interest on Federal Financing Bank borrowings	0	18,068
Provision for losses	(278,267)	(1,176,165)
Gain on conversion of benefit plan	0	(39,297)
Prior year appropriation adjustments	4,531	0
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	437,750	2,307,756
Increase in securitization related assets acquired from receiverships	(21,365)	(1,415,155)
Decrease in assets acquired from assisted thrifts and terminated receiverships	13,788	61,928
Decrease (Increase) in other assets	35,680	(389,691)
Increase (Decrease) in accounts payable and other liabilities	34,710	(125,545)
(Decrease) in accrued interest on notes payable	0	(28,950)
(Decrease) Increase in liabilities from thrift resolutions	92,414	130,794
Increase in contingent liabilities for litigation losses	3,968	13,897
(Decrease) in contingent liabilities for assistance agreements	0	(1,476)
Net Cash Provided by Operating Activities	$ 730,616	$ 1,013,957

Noncash Investing Activity

The FRF acquired securitization residual certificates through a noncash purchase from its receiverships. This noncash transaction valued at $1.4 billion was applied to amounts owed by FRF receiverships which resulted in a reduction to the "Receivables from thrift resolutions, net" line item and an increase in the "Investment in securitization related assets acquired from receiverships" line item (see Note 4).

17. Year 2000 Issues

State of Readiness

The FDIC, as administrator for the FRF, conducted a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant. This meant that systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999,

and be able to correctly deal with leap-year calculations in 2000. An oversight committee comprised of FDIC division management directed the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) led the Year 2000 effort, under the direction of the oversight committee. The internal Year 2000 team used a structured approach and rigorous program management as described in the U.S. General Accounting Office's (GAO) *Year 2000 Computing Crisis: An Assessment Guide*. This methodology consisted of five phases under the overall umbrellas of Program and Project Management. The FDIC completed all of the recommended GAO phases: Awareness, Assessment, Renovation, Validation, and Implementation.

As a precautionary measure, the FDIC developed a Year 2000 Rollover Weekend Strategy to monitor the information systems during the transition into the year 2000. Contingency plans were in place for mission-critical application failures and for other systems. No major problems were anticipated due to the extensive planning and validation that occurred (see Note 18).

Year 2000 Estimated Costs
Year 2000 compliance expenses for the FRF are estimated at $1.3 million and $2.1 million at December 31, 1999 and 1998, respectively. These expenses are reflected in the "Operating expenses" line of the FRF's Statements of Income and Accumulated Deficit.

18. Subsequent Events

Year 2000 Effect on Internal Systems
On January 1, 2000, all FDIC systems were operating normally as a result of a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant prior to December 31, 1999. No internal system failures have occurred and none are anticipated (see Note 17).

Comments From the Federal Deposit Insurance Corporation

FDIC

Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Office of the Chief Financial Officer

May 12, 2000

Mr. David M. Walker
Comptroller General of the United States
U. S. General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Re: FDIC Management Response on the GAO 1999 Financial Statement Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U. S. General Accounting Office's (GAO) draft financial statement audit report titled, Financial Audit: Federal Deposit Insurance Corporation's 1999 and 1998 Financial Statements, GAO/AIMD-00-157. The report presents GAO's opinions on the financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF); GAO's opinion on FDIC management assertions about the effectiveness of internal controls; and GAO's evaluation of FDIC's compliance with laws and regulations.

It is gratifying to accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and notice of no material weaknesses identified during the 1999 audits. In addition, we are pleased with GAO's report that FDIC has effective internal controls over financial reporting (including safeguarding of assets), is compliant with laws and regulations, and found no instances of noncompliance with selected provisions of laws and regulations tested during 1999.

GAO stated that FDIC's information system (IS) general controls needed to be improved and issued a reportable condition. The FDIC continues to demonstrate its full commitment to implementing a strong IS security program for the FDIC and fostering an environment that makes all employees aware of their security responsibilities. The Corporation will continue IS improvement efforts initiated in 1999 and will take additional corrective actions to address the issues and recommendations reported by the GAO.

We look forward to working with you in the coming months to continue to strengthen our general control and security environment. In addition, we will continue to monitor and report to you on the status of the goodwill litigation cases and FRF's liquidation activities. As always, our commitment to effective internal controls remains strong.

If you have any questions or concerns, please let me know.

Sincerely,

Chris Sale

Chris K. Sale
Chief Financial Officer

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Acknowledgments

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